

Message Text

CONFIDENTIAL

PAGE 01 JAKART 16345 200907Z
ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00
CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01
/099 W

----- 064626 /20

R 200622Z DEC 76
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 8326
INFO AMEMBASSY KUALA LUMPUR
AMEMBASSY MANILA
AMMBASSY SINGAPORE 5339
AMEMBASSY TOKYO
AMCONSUL MEDAN
AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 16345

E.O. 11652: GDS
TAGS: ENRG, ID
SUBJECT: PETROLEUM EXPLORATION AND PRODUCTION ACTIVITIES

REF: JAKARTA A-189

1. FOLLOWING IS SUMMARY OF REPAIR, WHICH CONTAINS ANALYSIS
OF EXPLORATION AND PRODUCTION ACTIVITIES IN THE INDONESIAN
PETROLEUM INDUSTRY AND NEAR-TERM OUTLOOK.

2. THERE IS PREVALENT A MISCONCEPTION THAT BOTTOM DROPPED OUT
OF INDONESIAN OIL INDUSTRY IN MID-1976 AS A RESULT OF CONTRACT
REVISIONS. THIS IS NOT REPEAT NOT TRUE. LEVELES OF EXPLORATION
BEGAN TO DECLINE IN LATE 1974 AND CONTINUED THROUGHOUT 1975.
IN 1975 FIELD EXPLORATION ACTIVITY DECLINED BY 9 PERCENT OVER
PREVIOUS YEAR. NUMBER OF RIGS DROPPED FROM 31 IN DECEMBER 1974
TO 23 IN DECEMBER 1975, NEW WILDCAT WELLS FROM 220 TO 182.
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 JAKART 16345 200907Z

3. COMPLEX SERIES OF FACTORS CAUSED THIS TURNDOWN;
(A) DEVELOPMENT HAS BASICALLY OPERATED ON A 4-YEAR
CYCLE BETWEEN EXPLORATION AND PRODUCTION. PROJECTS
UNDERTAKEN IN 1970/71, THE BEGINNING OF THE OIL BOOM,
WERE NEARING COMPLETION IN 1974 AND EARLY 1975. COM-

PLETION OF PROJECTS RESULTED IN RELEASE OF RIGS;
(B) THIS PERIOD WAS ALSO MARKED BY A SHARP DROP IN
DEMAND FOR OIL DUE TO WORLD-WIDE RECESSION WHICH
DISCOURAGED SEARCH FOR NEW OIL; (C) THE DEVELOPMENT OF
PROJECTS LIKE THE NORTH SLOPE AND NORTH SEA COM-
PETED WITH INDONESIA FOR COMPANIES' INVESTMENT CAPITAL;
(D) FINALLY, THERE WAS THE EFFECT OF USG ACTUAL AND
PROPOSED TAX AND LEGISLATIVE ACTIONS INCLUDING THE
DEPLETION ALLOWANCE
EDUCTION, PROPOSED CHANGES IN THE
TREATMENT OF INTANGIBLE COSTS, THE TAX ACTS OF 1975
AND 1976, RUMORS OF DIVESTITUTURE, ETC.

4. AGAINST THIS BACKDROP CAME PERTAMINA FINANCIAL
CRISIS, OUSTER OF GENERAL IBNU, AND RENEGOTIATION OF
OIL CONTRACTS. IN ATTEMPT TO MEASURE THE IMPACT OF
NEW TERMS, PERTAMINA ESTIMATES THAT TOTAL GROUP OF
PRODUCTION-SHARING CONTRACTORS IS EXPECTED TO COMPLETE
ONLY 61 PERCENT OF EXPLORATION DRILLING PROGRAM SET
FORTH IN CONTRACTORS' 1976 WORK PROGRAM. PERTAMINA CAN-
DIDLY ASCRIBES THIS DECLINE TO "UNCERTAINTY" ABOUT
APPLICATION OF NEW PRODUCTION-SHARING TERMS.

5. OUTLOOK FOR 1977 EXPLORATION IS DIFFICULT TO PREDICT,
AND WILL DEPEND LARGELY ON OUTCOME OF IRS PROBLEM.
COMPANIES ARE ALSO HOPEFUL OF GETTING INCENTIVES FROM
PERTAMINA TO ENCOURAGE EXPLORATION AND DEVELOPMENT OF
NEWLY DISCOVERED OIL SOURCES. OUTLOOK NOW CALLS FOR
ABOUT 100-110 NEW STRUCTURE WILDCATS TO BE DRILLED BY
PERTAMINA AND CONTRACTORS. THIS IS ABOUT THE SAME
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 JAKART 16345 200907Z

LEVEL OF ACTIVITY AS 1976, BUT A SHARP DROP FROM 1975
WHEN 190 WILDCATS WERE SPUNDED. ACCORDING TO LATEST
RIG SCHEDULE, THERE COULD BE AS FEW AS 2-3 RIGS OFF-
SHORE AND 13 REMAINING ON LAND BY MID-1977. MOST
COMPANIES AT PRESENT TIME ARE PREPARING RETRENCHMENT
PROGRAMS FOR 1977, AND IT WOULD REQUIRE SEVERAL MONTHS
FOR THEM TO GEAR UP EVEN IF SITUATION WERE TO BECOME
MORE ATTRACTIVE.

6. IMPACT OF REDUCED EXPLORATION WILL BEGIN TO MANI-
FEST ITSELF ABOUT LATE 1977. TOTAL PRODUCTIVE CAPACITY
PRESENTLY STANDS AT ABOUT 1.72 MILLION B/D AND COULD
REACH 1.77-1.84 MILLION B/D BY LATE 1977 AND PEAK AT
THAT TIME. INDONESIAN CRUDE PRODUCTION SHOULD START TO
DROP IN ABSENCE OF ANY MAJOR EXPLORATION OR DEVELOPMENT
WORK ABOUT EARLY 1978 AND COULD FALL AS LOW AS 1.0 MIL-
LION B/D IN MID-1980.

7. ANOTHER FACTOR IS UNUSUALLY HIGH GROWTH IN DOMESTIC CONSUMPTION. GOI IN COMING YEARS WILL HAVE TO MAKE HARD CHOICE BETWEEN MAKING OIL AVAILABLE FOR EXPORT OR CONSUMPTION. IN RECENT CONVERSATION PERTAMINA PRESIDENT HARYONO ADMITTED THAT BY 1980, IF COMPANIES DID NOT RESUME SOME FORM OF AGGRESSIVE EXPLORATION PROGRAM, INDONESIA MIGHT NOT HAVE OIL LEFT FOR EXPORT IN LIGHT OF DECLINING PRODUCTION AND RISING CONSUMPTION.

8. CONCLUSIONS: (A) FOREIGN OIL COMPANIES BEGAN CUTTING BACK ON ACTIVITIES IN LATE 1974 FOR A HOST OF REASONS, AND OOI WILL HAVE A DIFFICULT TIME LURING THEM BACK; (B) IT WILL BE DIFFICULT IF NOT IMPOSSIBLE FOR INDONESIA TO MEET 5-YEAR PLAN (REPELITA II) CRUDE OIL PRODUCTION TARGETS WHICH CALLED FOR OUTPUT OF 1.97 MILLION B/D IN 1978/79; (C) THIS DOWNTURN IN PRODUCTION, AND REVENUES FROM OIL WILL COINCIDE WITH UPSWING IN INDONESIA'S DEBT SERVICING RATIO. NONE CONFIDENTIAL

CONFIDENTIAL

PAGE 04 JAKART 16345 200907Z

OF THIS IS MEANT NEEDLESSLY TO ALARM OR SUGGEST DISASTER FOR THE INDONESIAN ECONOMY WHICH, IF NOTHING ELSE, IS MARKED BY INCREDIBLE RESILIENCE. INDONEISA WILL MUDDLE THROUGH, ALBEIT ON A SMALLER SCALE OF EXPECTATIONS. SOME OF THE SLACK WILL BE TAKEN UP BY NON-OIL AND LNG EXPORTS. FURTHERMORE, THERE ARE SIGNS THAT GOI IS BEGINNING TO RECOGNIZE SERIOUSNESS OF THE SITUATION. FOR EXAMPLE, MINISTER OF RESEARCH SUMITRO HAS DRAFTED LETTER FOR PRESIDENT SUHARTO'S SIGNATURE WHICH ORDERS STATE ELECTRICAL POWER AGENCY TO BEGIN SWITCHING TO COAL AS SOURCE OF POWER. NEWSOM

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPLORATION, PETROLEUM INDUSTRY, INDUSTRIAL PRODUCTION
Control Number: n/a
Copy: SINGLE
Draft Date: 20 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976JAKART16345
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760466-0601
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761229/aaaaaynv.tel
Line Count: 151
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 JAKARTA A-189
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 25 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 MAY 2004 by GarlanWA>; APPROVED <22 SEP 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PETROLEUM EXPLORATION AND PRODUCTION ACTIVITIES
TAGS: ENRG, ID, PERTAMINA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006